

UNITED STATES OF AMERICA  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001

Periodic Reporting  
(Proposal Two)

Docket No. RM2017-6

PUBLIC REPRESENTATIVE COMMENTS ON  
PROPOSED CHANGES IN ANALYTICAL  
PRINCIPLES USED IN PERIODIC REPORTING  
(PROPOSAL TWO)

July 31, 2017

The Public Representative hereby provides comments in response to Commission Order No. 3962.<sup>1</sup> In that Order, the Commission established the above referenced docket to receive comments from interested persons, including the undersigned Public Representative, on a Postal Service Petition requesting that the Commission initiate a rulemaking proceeding to consider a proposal to change the approved analytical methods used in the Postal Service's periodic reports to the Commission.<sup>2</sup> To clarify the Postal Service's Petition, the Chairman issued an information request.<sup>3</sup> The Postal Service responded to the request on July 10, 2017.<sup>4</sup>

In Proposal Two, the Postal Service seeks to change the costing methodology for the treatment of Inbound mail, including Letter Post, Parcel Post and EMS. It proposes to combine the cost estimates for Target and Transition Countries into a single "at UPU Rates" category. Petition, Proposal Two at 1. The Postal Service notes that the "Target

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<sup>1</sup> Order No. 3962, Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (Order), June 14, 2017.

<sup>2</sup> Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Two), June 8, 2017 (Petition).

<sup>3</sup> Chairman's Information Request No. 1, June 27, 2017 (CHIR No. 1).

<sup>4</sup> Responses of the United States Postal Service to Questions 1-3 of Chairman's Information Request No. 1, July 10, 2017 (Response to CHIR No. 1).

and Transition Country distinction applies only to terminal dues rates paid for Letter Post items.” It asserts that the distinction has no application to Inbound Parcel Post or Inbound EMS. *Id.*

Additionally, the Postal Service proposes to collapse the reporting (cost and revenue) of the two separate Target System Countries at UPU Rates and Transition System Countries (at UPU rates) lines into a single Inbound Letter Post at UPU Rates line in the ICRA. *Id.*

## COMMENTS

For the reasons stated below, the Public Representative recommends that the Commission approve Proposal Two.

With respect to Inbound Parcel Post and Inbound EMS, the Public Representative agrees with the Postal Service that there’s no rational basis for reporting cost by the country group. Remuneration for Inbound Parcel Post and Inbound EMS is not affected by the categorization of countries as Target or Transition. As both Inbound Parcel Post and Inbound EMS items are treated the same no matter where they originate, there is no compelling reason to maintain separate costs for Target and Transition country groupings.

Reporting inbound letter post costs separately for Target and Transition countries evolved from the requirement to report costs separately for industrialized countries (ICs) and (DCs). In 1998, Congress enacted a new section 3663 of title 39, directing the Commission, then the Postal Rate Commission, to submit to Congress annually a report on the costs, volumes, and revenues of the Postal Service’s international mail services. Congress directed the Postal Service to provide the Commission with the necessary data to facilitate the Commission’s reporting.

At that time, the Postal Service used three pricing regimes to recover the cost of handling and delivering inbound letter post. The Postal Service had one bilateral

agreement at the time, with Canada Post. For all other countries, the Postal Service used the UPU terminal dues regime, which was bifurcated between ICs and DCs. Industrialized countries' rates were composed of a piece and weight component, while the rates applying to DCs were based entirely on weight. For its FY 2003 Report, at the Commission's request, the Postal Service provided country-specific IOCS-related tallies. The Commission used those tallies and other data to develop total unit attributable cost for each country group, ICs, DCs and Canada. The Commission recognized that the differences between the three groups were not only in the applicable terminal dues rates, but also in the costs incurred by the Postal Service for each group.

Most ICs presented mail to the Postal Service separated by format: letters, flats and packets. ICs normally presented their letters and flats in trays instead of bags, allowing the Postal Service to efficiently feed its sorting machines. Efficiency gains from format separation were reflected in the unit attributable cost of inbound letter post for ICs. The exchanges of mail with Canada were subject to a bilateral agreement. In addition to requiring format separation, the agreement also included worksharing arrangements, which impacted the unit attributable cost for inbound letter post from Canada. Inbound letter post from DCs was generally not separated by format and were presented in mixed-format bags.

After the PAEA, the Postal Service continued reporting costs for Inbound Letter Post by country group. The UPU renamed countries subject to the terminal dues for ICs as Target System countries and those subject to terminal dues for DCs as Transition System countries. The Postal Service and the Commission adopted the new terminology.

The UPU set a goal of moving all Transition System countries to the same terminal dues regime as the one for Target System countries. Countries were classified into separate groups based on their level of development. And, groups of countries were moved from the Transition System to the Target System.

Consequently, countries in the Target System are not as homogeneous with regard to cost as they once were. Only a portion of Target System countries, those that were originally in the target system, are required to separate letter post by format. Therefore, it is difficult to draw any meaning from attributable cost differences between the two country groups. Additionally, as the Postal Service reasoned, as countries migrate from the Transition System to the Target System, there will be less and less data to estimate the cost of inbound letter post from Transition System countries.

The Public Representative supports the Postal Service's conclusion that providing separate inbound letter post costs for Target System and Transition System country groups is no longer relevant or useful. And, while it would be possible to develop costs separately for format separated and non-format separated inbound letter post, it is unnecessary. Nonetheless, the Postal Service should be mindful of cost differences between countries that do and do not separate by format. In particular, when negotiating and/or reviewing bilateral agreements, it is important to be aware that the unit attributable cost for inbound letter post will be lower than the unit attributable cost of inbound letter post that is not separated by format.

The Public Representative respectfully submits the foregoing comments for the Commission's consideration.

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